



**City of Santa Barbara**  
Airport Department

**DATE:** July 21, 2010  
**TO:** Airport Commission  
**FROM:** Karen Ramsdell, Airport Director  
**SUBJECT:** FY2010-2011 Airport Commercial/Industrial Lease Rates

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**RECOMMENDATION:** That Airport Commission approve the proposed Fiscal Year 2010-2011 Commercial/Industrial Rental Rates for land and buildings at the Airport, effective July 1, 2010.

**DISCUSSION:**

Background

The Business & Property Management Program is charged with maintaining the Airport's self-sufficiency and strong financial position by prudent fiscal management of its fixed assets. This Program generates almost all of the revenue for the Airport Department.

The Business & Property Division currently has 117 tenants and manages 136 agreements, not including taxicabs. These tenants include:

- Leases and concession agreements associated with the operation of commercial air service (airlines, rental cars, restaurant, gift shop, TSA, shuttle services, parking, ATM machine etc.)
- General aviation agreements (FBOs, T-hangars, flight schools, maintenance & avionics shops, freight carriers, charter air services, and aircraft washing services.)
- Commercial/Industrial leases (offices, research & development, light industrial and storage spaces) including 341,561 square feet of buildings and 4,886,265 square feet of land.

One of its key objectives for the Fiscal Year 2009-2010 was to maintain annual commercial/industrial lease revenue at the budget target of \$3,893,750. The Program is on target to reach this goal.

Current Occupancy Rates

The current average occupancy rate for land for 2010 is 97.8%, a decrease of 1.37% from the 2009 average of 99.17%. The 2010 occupancy rate for buildings also averaged 97.8%, a decrease of one-half of one percent from the 2009 rate of 98.3%.

Marketing of Airport Properties

Traditionally, most potential tenants learned of Airport vacancies by word of mouth, Santa Barbara City TV, or the Airport website [flysba.com](http://flysba.com). The Airport has also posted signs in several visible locations. The posting of the signs displaying the Administration phone number has resulted in an increase in inquiries regarding vacant properties.

### Effects of the Current State of the Economy

The current economic recession has affected the Airport by increasing the number of tenants consolidating their premises, the number of delinquent tenants, and the requests for some form of rent relief.

On September 1, 2009, the Airport imposed a one year moratorium on rental increases for month-to-month tenants with the concurrence of Airport Commission. In addition, tenants with term leases were allowed to reduce their rent by reducing the size of their premises, where possible.

### Effects of the Moratorium

A total of fifty-eight tenants will benefit from the rental moratorium between September 1, 2009 and August 31, 2010. Lost revenue to the Airport will total \$20,035. An additional ten tenants received rent reductions either through reducing their premises or because they were at the end of their term and negotiated a new lease.

### CPI Adjustments

Staff considered continuing the moratorium for another year. As part of that consideration, the CPI history for the past five and ten years was reviewed. The majority of Airport leases currently call for a minimum 3% maximum 8% annual CPI increase based upon the monthly index published by the Bureau of Labor Statistics for the Los Angeles-Riverside-Orange County area.

The average CPI adjustment for the past ten years was 3.0. It was also 3.0 for the last five years. From January to December 2009 the average was -.08. The index was negative for the months of February through October. Since January 2010, the index has varied from a low of 1.4 to a high of 1.9. The index for May dipped slightly to 1.8.

Inasmuch as the CPI averages 3%, even with the negative months, at this time, staff is not recommending a continuation of the moratorium.

### Delinquent Rent

All leases have deposits either in cash or letters of credit. When tenants fall 30-days behind, staff will use a portion of the deposit to cover the monthly rent, and then work with the tenant to replace the deposit. As with last year, about five to six tenants are delinquent in paying their rent. Late charges are assessed on rent paid after the tenth day of the month. Three tenants are delinquent more than 30-days. The three delinquent tenants are actively working on making additional payments to bring their accounts up to date.

### Rental Rate Analysis

The current rental market in Goleta was evaluated over a five week period in April and May. The average asking rates per square foot for Goleta properties compared to Airport properties are listed below:

|                | Goleta      |             | Airport     |             |
|----------------|-------------|-------------|-------------|-------------|
|                | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> |
| Office:        | 1.54        | 1.49        | 1.43        | 1.48        |
| Industrial/R&D | 1.08        | 1.14        | 1.04        | 1.06        |
| Warehouse      | .74         | no comps    | .63         | .75         |
| Land           | no comps    | no comps    | .14 unpaved | .15         |
|                |             |             | .17 paved   | .21         |

Staff also considered a recent appraisal of Airport property north of Hollister Avenue by Hammock, Arnold & Smith, and the area rental rates surveyed for the UCSB Economic Forecast. Based upon this information and considering the relative condition and age of Airport buildings, staff feels that the current range of rental rates is reasonable and does not recommend any changes at this time.

### Impact to the Airport

The Airport's budget is established by first projecting revenue from the tenant leases, and user fees. Budget projections are also included in the Airport's cash flow forecast. The projections do take into account possible vacant properties and potential development, so there is some flexibility in the estimates. Any major change to rental rates could have an adverse impact to the Airport's budget.

Commercial Industrial revenues were conservatively estimated for the FY2010-2011 budget at \$3,970,000 based upon this year's actual revenue, which exceeded the Airport's goal, in spite of the rent moratorium. Airport staff believes that the combination of smaller spaces and reasonable rents has allowed the Airport to maintain vacancy rates of 2.2% while the UCSB economic forecast showed Goleta offices and industrial space at 13.4% and 7.2% vacant, respectively.

### Current Rental Rates

Airport lease rates are reviewed annually and adjustments recommended when warranted. The last adjustment to the rental rates was July 1, 2008.

#### ***Buildings:***

|  |  |
|--|--|
| <b>Office</b>                                  | <b>\$1.35 to \$1.85/ square foot / month</b> |
| <b>Industrial / R &amp; D/ Shop / Assembly</b> | <b>\$.95 to \$1.50/square foot / month</b>   |
| <b>Storage / Warehouse</b>                     | <b>\$.68 to \$1.00/ square foot / month</b>  |
| <b>Container Storage</b>                       | <b>\$.40 / square foot / month</b>           |

**Land:** **\$ .14 to \$.37/ square foot / month**

**Parking Spaces:** **\$14.00/space/month**

*\*Building rates vary according to location, condition, intended use and improvements by Airport and Tenant. Land rates vary based upon improvements such as pavement, fencing and lighting.*

### **Lease Review Subcommittee**

The Lease Review Subcommittee met Thursday, July 1, 2010 to consider staff's recommendations for the FY2010-2011 rental rates. The subcommittee concurred with staff's proposal to maintain the lease rates for the coming fiscal year.

The Lease Review Subcommittee also discussed ending the moratorium on rental increases. The majority of Airport leases require an annual adjustment of 3-8%. However, inasmuch as the CPI was negative from January to October of 2009 and has averaged 1.76% since January 2010, Lease Review Subcommittee recommended that a CPI increase of 1.5% would be appropriate for month-to-month tenants. The proposed 1.5% increase would be in effect for the period from September 1, 2010 to August 31, 2011.

The rental increase will be revisited at the end of fiscal year 2011.

### **Recommendation**

Based upon the comparables in the Goleta area, the prevailing economic climate, and the confidence that the current caps on rental rates will be sufficient to maintain Airport properties at market rate, Lease Review Subcommittee recommends that the Airport maintain the lease rates at current levels for FY2010-2011.

Lease Review Subcommittee further recommends that month-to-month tenants receive a 1.5% increase for the period from September 1, 2010 to August 31, 2011.

**PREPARED BY:** Business & Property Division